

# Day Break

Wednesday, 25 April 2018

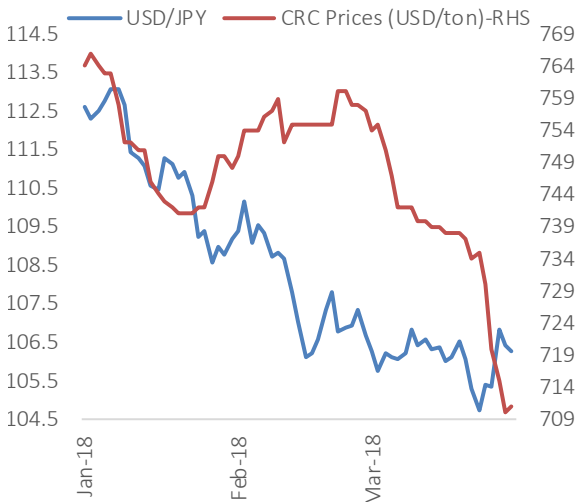
## Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom
INDU	2,321.0	9.9	7.1%	BUY
HCAR	623.9	10.0	4.0%	BUY
PSMC	493.2	9.0	4.1%	HOLD

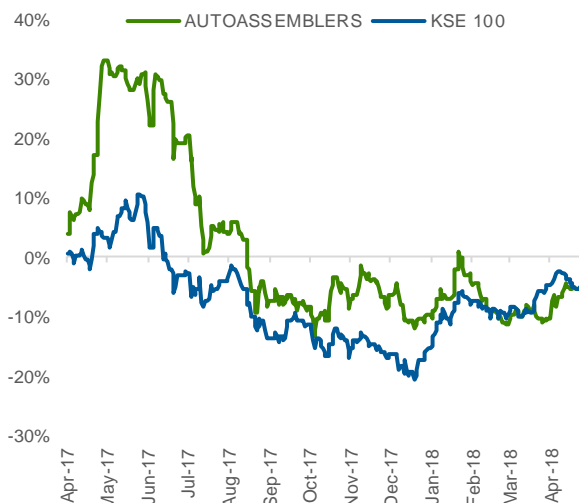
### Exhibit: Sector Key Financials

SECTOR	3QFY18	QoQ	YoY
UNITS	74,125	7%	13%
NET SALES	90,263	9%	16%

### Exhibit: USD/JPY movement and CRC prices



### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Automobile Assemblers

### IGI OEMs Earnings to decrease by 9%YoY to PKR6.9bn- INDU to outperform its peers

- We expect sectors profitably under IGI universe to decrease by 9%YoY to PKR 6.9bn with INDU expected to show positive growth in its earnings while HCAR and PSMC may witness decline in their profitability
- On individual basis, we expect INDU to lift up sectors earnings showing positive growth level of +3%YoY to PKR 4.4bn (EPS: PKR 54.6) while HCAR and PSMC may witness decline in their earnings by 17%YoY and 31%YoY to PKR 1.8bn (EPS: PKR 12.30) and PKR 0.9bn (EPS: PKR 10.9) respectively.
- We maintain a "BUY" call on INDU with Dec-18 based target price of PKR 2,321.9/share, offering +20% upside. The company is currently trading at FY18E P/E of 9.9x and offers a dividend yield of ~7%.

### IGI auto universe earnings to decrease by 9%YoY to PKR 6.9bn

We preview earnings of the major OEMs under IGI coverage (INDU, HCAR and PSMC) for the quarter ended, Mar-18. As per our analysis, we expect sector profitably under IGI universe to decrease by 9%YoY to PKR 6.9bn, despite an increase of +13%YoY in volumetric sales to 74k units. On individual basis, we expect INDU to lift up sectors earnings showing positive growth level of +3%YoY to PKR 4.4bn (EPS: PKR 54.6) while HCAR and PSMC may witness decline in their earnings by 17%YoY and 31%YoY to PKR 1.8bn (EPS: PKR 12.30) and PKR 0.9bn (EPS: PKR 10.9) respectively. Furthermore, gross margins during the period remained sensitive owing to increase in CRC prices, up by +10%YoY/3%QoQ to USD747/ton on average. In addition, exchange rate remained volatile as dollar index weakened and JPY advanced to 106 mark (average 108.31; 5%YoY); while on domestic front PKR continued to loose its value against USD, averaging around 111.4 (depreciating by 6%YoY) during the quarter. To recall, automobile assemblers subsequently increased their prices (3%-5%/ unit) during the start of this year; INDU having strong pricing power increased its prices twice during the last four months. We therefore expect INDU to outperform amongst its peers witnessing stable margins during the quarter in review.

### PSMC: 1QCY17 earnings to witness decline of 31%YoY to PKR 0.9bn (EPS: PKR 10.9)

PSMC is scheduled to announce its 1QCY18 financial result on 25<sup>th</sup> Apr-18 wherein we expect company to post earnings of PKR0.9bn (EPS: PKR 10.9), down by 31%YoY despite recording a volumetric incline of 44k units up by +18%YoY. Major contribution to sales jump was driven by strong sales of WagonR/Cultus, surging by +32%/28%YoY to 6.6k/6.1k units followed by 2W segment, witnessing improved sales of +22%YoY to 5.5k units. This brings net sales for the 1QCY17 to PKR 29bn (+25%YoY). In addition, we expect gross margins to clock in at 8%, down by 414bps YoY, marred by rise in steel prices coupled with strengthening JPY against USD.

Exhibit:

**PSMC 1QCY18 Result Highlights**

PKRmn (Period end=Dec)	1QCY18E	1QCY17	YoY	4QCY17	QoQ
Net Sales	29,903	23,891	25%	29,009	3%
Cost Of Sales	27,507	20,987	31%	26,747	3%
Gross Profit	2,397	2,904	-17%	2,262	6%
Selling & Dist.	715	707	1%	834	-14%
Admin.	476	321	48%	478	0%
Operating Profit	1,206	1,877	-36%	950	27%
Other Income	201	185	8%	201	0%
EBIT	1,289	1,922	-33%	1,070	21%
Finance Cost	9	28	-68%	(72)	-112%
Profit Before Tax	1,280	1,894	-32%	1,145	12%
Taxation	384	587	-35%	416	-8%
Profit After Tax	896	1,307	-31%	729	23%

EPS (PKR)	10.9	15.9		8.9	
DPS (PKR)	-	-		19.0	

**KEY INDICATORS**

Units sold (kUnits)	43.6	36.8	18%	41.8	4%
Gross Profit Margins	8%	12%		8%	
Effective Tax Rate	30%	31%		36%	

SOURCE: IGI Research, Company accounts, PSX notifications

No of shares(mn):82.3

**INDU: High margin sales to lift earnings by +3%YoY to PKR 4.2bn (EPS: PKR 54.6) for 3QFY18**

INDU is scheduled to announce its 3QFY18 financial result on 27<sup>th</sup>Apr-18. We expect company to post earnings of PKR4.2bn (EPS: PKR 54.6) up by +3%YoY despite witnessing a volumetric decline of 5%YoY to 16.2k units. This takes total earnings for 9MFY18 to PKR11.7bn (EPS: PKR 148), up by +14%YoY with volumetric sales approaching at 46k units, a mere increase of +1%YoY. For the quarter, we attribute growth in earnings on the back of increase in volumetric sales across high margin segment with Fortuner witnessing massive growth of +82%YoY to 1.1k units, followed by Hilux showing double digit growth of +33%YoY to 2.2k units. However, sales of Corolla decreased by 13%YoY to 12.9k units during the quarter. This results in net sales of PKR 35.9bn (+9%YoY), translating 9MFY18 sales to PKR 99bn (+18%YoY). We expect gross margins for the quarter to strike at ~18%, while trading margins to clock in at 31%, contributing 7% in the sales mix. In addition, we expect INDU to pay out cash dividend of PKR35/share, taking nine months' payout to PKR 98/share.

Exhibit:

**INDU 9MFY18 Result Highlights**

PKRmn (Period end=Jun)	3QFY18E	3QFY17	YoY	9MFY18E	9MFY17	YoY
Net Sales	35,898	32,944	9%	99,216	84,343	18%
Cost Of Sales	29,465	26,611	11%	81,650	69,136	18%
Gross Profit	6,433	6,333	2%	17,566	15,208	16%
Selling & Dist.	373	349	7%	955	843	13%
Admin.	318	285	11%	1,001	736	36%
Operating Profit	5,667	5,639	0%	15,466	13,535	14%
Other Income	1,040	899	16%	2,810	2,524	11%
EBIT	6,254	6,096	3%	17,039	14,967	14%
Finance Cost	120	116	3%	393	234	68%
Profit Before Tax	6,134	5,980	3%	16,647	14,733	13%
Taxation	1,840	1,806	2%	4,989	4,485	11%
Profit After Tax	4,294	4,173	3%	11,658	10,248	14%
EPS (PKR)	54.6	53.1		148.3	130.4	
DPS (PKR)	35	30		98	80	

**KEY INDICATORS**

Units sold (kUnits)	16.3	17.2	-5%	46.4	46	1%
Gross Profit Margins	18%	19%		18%	18%	
Effective Tax Rate	30%	30%		30%	30%	

SOURCE: IGI Research, Company accounts, PSX notifications

No of shares(mn):78.6

**HCAR: MFY18 earnings to climb up by +12%YoY to PKR 6.7bn (EPS: PKR 48.2) as volumetric sales touched 50k units**

According to our analysis we expect company to post earnings of PKR 1.76bn or PKR 12.30/share, down by 17%YoY, taking full year earnings to PKR 6.7bn (EPS :PKR 48.2), up by +12%YoY. Despite recording peak sales of 14.2k units during the quarter, major blow to earnings stems from low margin sale (BRV) coupled with rising steel prices and weakening PKR. Nevertheless, on sequential basis earnings are expected to increase by +24%QoQ, primarily on the back of surging sales of Civic/City (up by +37%QoQ to 12.5k units). Overall net sales for the quarter are estimated to be PKR 24.5bn, up by +16%YoY, translating into cumulative net sales of PKR 90bn for the full year up by +44%YoY. We expect gross margins for the quarter to hover around 11%, down by 238bps on yearly basis, but on sequential basis to climb up by +57bps, owing to better sales mix and price hike. In addition, we expect the company to declare cash dividend of PKR 20/share for the year.

Exhibit:

**HCAR MFY18 Result Highlights**

PKRmn (Period end=Mar)	4QFY18E	4QFY17	YoY	MFY18E	MFY17	YoY
Net Sales	24,462	21,074	16%	90,208	62,803	44%
Cost Of Sales	21,768	18,260	19%	79,527	53,681	48%
Gross Profit	2,695	2,814	-4%	10,681	9,122	17%
Selling & Dist.	207	210	-1%	706	542	30%
Admin.	169	138	22%	616	497	24%
Operating Profit	2,318	2,465	-6%	9,360	8,082	16%
Other Income	471	450	5%	1,885	1,115	69%
EBIT	2,512	2,802	-10%	10,141	8,660	17%
Finance Cost	3.0	4.3	-31%	12	23	-47%
Profit Before Tax	2,509	2,798	-10%	10,129	8,637	17%
Taxation	753	678	11%	3,252	2,501	30%
Profit After Tax	1,757	2,119	-17%	6,877	6,135	12%
EPS (PKR)	12.3	14.8		48.2	43.0	
DPS (PKR)	20	-		24	13	
<b>KEY INDICATORS</b>						
Units sold (kUnits)	14.2	11.5	23%	50.0	35.3	42%
Gross Profit Margins	11%	13%		12%	15%	
Effective Tax Rate	30%	24%		32%	29%	

SOURCE: IGI Research, Company accounts, PSX notifications

No of shares(mn):142.8

**Recommendation**

We maintain a **“BUY”** call on INDU with Dec-18 based target price of PKR 2,321.9/share, offering +20% upside. The company is currently trading at FY18E P/E of 9.9x and offers a dividend yield of ~7%.

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**Time Horizon:** Dec – 2018

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